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FISCAL IMPACT STATEMENT

LS 7482 | **NOTE PREPARED:** Feb 19, 2007
BILL NUMBER: HB 1812 | **BILL AMENDED:** Feb 15, 2007

SUBJECT: Energy-Efficient Buildings.

FIRST AUTHOR: Rep. Pierce | **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) This bill has the following provisions:

Construction of a Public Building or Structure: The bill requires a public works contract that is for the construction of a public building or structure and is entered into after December 31, 2007, to require that the building or structure must meet at least the silver rating under the United States Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system or an equivalent rating system, such as a Two Globes rating system under the Green Building Initiative's Green Globes rating system.

Reconstruction, Repair, Alteration, or Retrofitting of Public Building or Structure: The bill requires a public works contract that is for the reconstruction, repair, alteration, or retrofitting of a public building or structure and is entered into after December 31, 2007, to require that the building or structure must meet at least the standards for existing buildings under the LEED rating system or an equivalent rating system.

State Agency Purchases: The bill provides that for state agency purchases, there is a 5% price preference for any electronic office equipment, including computers, monitors, printers, scanners, fax machines, and copiers, that are compliant with the United States Environmental Protection Agency Energy Star ratings.

Assessed Value Deduction: The bill allows a county fiscal body to adopt an ordinance providing a deduction from the assessed value of a newly constructed building or a rehabilitated building that is certified to meet the LEED rating system or an equivalent rating system. It requires the ordinance to specify the amount of the deduction.

Indiana Economic Development Corporation: The bill allows the Indiana Economic Development

Corporation (IEDC) to adopt rules allowing the Corporation to give priority to economic development projects that meet or surpass the standards of the leadership in energy and environmental design ratings systems developed by the U.S. Green Building Council or the Green Building Initiative.

Effective Date: (Amended) July 1, 2007.

Explanation of State Expenditures: (Revised) *Department of Administration, Public Works:* The bill will increase up-front costs for the Department of Administration (DOA) to construct or reconstruct, repair, alter, or retrofit public buildings and structures to meet the silver rating under the LEED or other rating system. However, the additional cost to build using the LEED or other rating systems is indeterminate and will depend on the project undertaken. Additional construction or reconstruction, repair, alteration, or retrofitting costs may be offset by energy savings or durability in future fiscal periods.

Background: The DOA has applied for LEED certification on five state buildings including the Issac Ray Forensic Patient Facility at Logansport State Hospital (received silver certification); three buildings at Madison State Hospital; and the Department of Health and State Police Laboratory. The DOA uses LEED certification depending on the circumstances of the building or facility. Also, the DOA audits campus-type facilities for energy use. DOA indicates that audits of certain state facilities that do not have air conditioning or heating systems may not be cost-effective.

(Revised) Background on LEED Rating Systems and the Green Building Initiative: The LEED rating system has four categories for both new and existing buildings that include certification, silver, gold, and platinum standards. The rating is determined by earning points in categories, including sustainable sites, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality, and innovation in design. LEED informational material indicates that existing building standards have an average return on investment of 2.6 years and annual net savings of $170,000. The Green Building Initiative is a nonprofit network of building industry leaders that works with design and building practitioners to facilitate understanding and acceptance of sensible green building practices among mainstream builders.

Department of Administration, Equipment Purchases: The bill could increase costs for equipment purchases to the extent that a price preference for Energy Star-compliant equipment is 5%. However, energy cost savings could offset initial costs. The DOA reports that 99% of the electrical equipment purchased for the state in 2005 is compliant with the Energy Star rating.

(Revised) *Assessed Value Deduction:* The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, annual state expenditures for PTRC and Homestead Credits is indeterminable at this time. Payments could increase if the combination of new and rehabilitated LEED-certified property results in a net addition to the tax base; payments could decrease if the opposite occurs. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

The LEED certification process is outlined under *Explanation of Local Revenues.* This provision could add administrative duties to the Office of Energy and Defense Development (OEDD) and the Department of Local Government Finance (DLGF). These duties may require additional funds and personnel. The OEDD is required to prescribe the application form and the approval process for LEED certification. The DLGF is required to prescribe the form for the certified statement taxpayers have to submit to the county auditor. The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

(Revised) *Indiana Economic Development Corporation:* The IEDC could incur minimal cost to adopt rules concerning priority projects.

Explanation of State Revenues: (Revised) *Assessed Value Deduction:* The state levies a tax rate for State Fair and State Forestry. Under this proposal, the revenue allocated to these funds would increase or decrease depending on whether there is a net increase or decrease in the tax base.

Explanation of Local Expenditures: Local units would have to construct and reconstruct, repair, alter, or retrofit public buildings and facilities to meet LEED rating standards. *See above for Department of Administration for costs, savings, and LEED and the Green Building Initiative rating standard information.*

(Revised) *Assessed Value Deduction:* Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). Homestead credits could increase if this proposal results in a net addition of new and/or rehabilitated LEED-certified homesteads to the tax base; credits could decrease if the opposite occurs. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: (Revised) *Assessed Value Deduction:* The LEED rating system is outlined in the *Explanation of State Expenditures*. This bill authorizes a county fiscal body to adopt an ordinance providing a property tax deduction for a newly constructed building or a rehabilitated building (qualified real property) that is certified to meet the LEED silver rating under the rating system of the U.S. Green Building Council. The bill requires the county to specify in the ordnance the amount of the deduction that may be applied to LEED-certified property. It also authorizes the IEDC to give priority to economic development projects that meet or surpass LEED standards. The ordinance adopted by the county fiscal body will apply to the assessment year beginning in the next calendar year after the ordinance is adopted.

In order to obtain the deduction, a property owner is first required to file an application for LEED certification with the OEDD. The property owner is required to submit proof that the building in question meets the appropriate LEED silver rating standard. If the application for certification is approved, the OEDD will provide a certificate of approval to the property owner. If the OEDD receives an application for certification before May 11 of the assessment year, it is required to grant or deny the certificate of approval by June 11 of that year. Applications for certification received before May 11 deadline and not processed by June 11 are considered approved.

Once the OEDD grants a certificate of approval, the property owner submits a copy of the certificate, and a certified statement (in duplicate) prescribed by the DLGF, to the county auditor. The property owner must file the statement between March 1 and June 11 inclusive, of the assessment year. Once the township assessor verifies the statement, the county auditor shall allow the deduction. If the application for deduction is denied, the property owner can appeal the verdict to the County Property Tax Assessment Board of

Appeals (PTABOA). The PTABOA is limited to reviewing its own determinations, the township assessor's, and the DLGF's. The taxpayer must file the statement each year for which the taxpayer wishes to claim the deduction for the building in question.

This proposal may lead to additional economic development, thereby increasing the tax base. Generally, the addition of assessed value to the tax base provides a tax shift from existing property to new property by spreading the tax levy over a larger tax base. The opposite might occur if this proposal leads to a net decrease in the tax base. The amount of change in the AV and the amount and direction of the tax shift are indeterminable and will depend on local action.

The revenue for cumulative funds would be changed by the product of the fund rate multiplied by the net change in the amount applicable to that fund.

State Agencies Affected: Department of Administration; Agencies making supply purchases; State public works; Indiana Economic Development Corporation; Department of Local Government Finance; Office of Energy and Defense Development; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: Local public works; County auditors; Township assessors; County Property Tax Assessment Board of Appeals.

Information Sources: Tom Coulter, Department of Administration; www.USGBC.org; http://www.in.gov/legislative/igareports/agency/reports/ADMIN03.pdf; http://www.thegbi.org/gbi/whoweare.asp.

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